



Financials



Source: Refinitiv

Market data

EPIC/TKR	BUR
Price (p)	1,556.0
12m High (p)	2,040.0
12m Low (p)	1,298.0
Shares (m)	218.6
Mkt Cap (£m)	3,402
Total assets (\$m)	2,056
Free Float*	90%
Market	AIM

*As defined by AIM Rule 26

Description

Burford Capital is a leading global finance and professional services firm focusing on law. Its businesses include litigation finance and risk management, asset recovery, and a wide range of legal finance and advisory activities.

Company information

CEO	Christopher Bogart
CIO	Jonathan Molot
CFO	Elizabeth O'Connell
Chairman	Sir Peter Middleton

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Key shareholders

Directors / management	8.2%
Invesco Perpetual	13.9%
Woodford Investments	9.5%

Diary

25 Jul	Interim results
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Analyst

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BURFORD CAPITAL

Petersen appeals to investors

Burford has made a double announcement about the Petersen case. Argentina had appealed to the US Supreme Court over the decision about where the case will be heard. The Court has declined to hear the appeal, so proceedings will take place in the US. Burford has also sold another 10% of its entitlement in the case for \$100m; implying a market price of \$1bn, ca.25% above the value implied by the smaller July 2018 transaction. Additional disclosure is that the sale took place to 11 institutional investors, with 40 having participated in the market now. This adds credibility to the valuation generated by the transactions to date.

- **Teinver:** At the end of last month, Burford announced that Argentina's annulment application in the case had been dismissed. This will allow the \$7m value for the put option to be released. This case generated a \$107m return on a \$13m investment, with 722% RoIC and 39% IRR.
- **Risks:** The investment portfolio is highly diversified, with exposure to more than 1,100 claims. However, it retains some very large investments, which means revenue could be volatile, particularly in the smaller divisions. The Petersen case shows that this volatility is not simply a negative.
- **Investment summary:** Burford has already demonstrated an impressive ability to deliver good returns in a growing market, while investing its capital base. As the invested capital continues to grow, the litigation investment business should continue to produce strong earnings growth.

Financial summary

Year-end Dec (\$m)	2013	2014	2015	2016	2017	2018
Revenue	60.7	82.0	103.0	163.4	341.2	420.7
Operating profit	42.5	60.7	77.2	124.4	285.1	353.0
Reported net income	2.6	45.4	64.5	108.3	249.3	317.4
Underlying net income	40.1	53.0	64.5	114.2	264.8	327.8
Underlying RoE	11.7%	12.1%	16.0%	22.1%	35.9%	30.1%
Underlying EPS (\$)	0.20	0.26	0.32	0.55	1.27	1.50
Statutory EPS (\$)	0.01	0.22	0.32	0.53	1.20	1.51
DPS (\$)	0.05	0.07	0.08	0.09	0.11	0.13
Dividend yield	0.2%	0.3%	0.3%	0.3%	0.4%	0.5%
NAV per share (\$)	1.72	1.87	2.12	2.22	3.19	4.38
P/E (x) (underlying)	99.1	75.1	61.7	35.5	15.3	13.0
Price/NAV (x)	11.3	10.4	9.2	8.8	6.1	4.4

Source: Hardman & Co Research

Petersen

Summary of case

Most investors will be familiar with this case by now; however, for those who have forgotten, here is a brief review.

This case refers to the ownership of YPF, an Argentinian oil company. The Petersen Group held a 25% stake, which was expropriated by the Argentinian government in 2012. Repsol, whose 50% stake was also expropriated, started to sue the Argentinian government and a settlement was reached with a payment of approximately \$5bn.

The Petersen Group has been liquidated, and Burford got involved by providing finance to the liquidators to pursue a claim. Burford also has rights to 70% (less fees and expenses) of the case of Eton Park, which was a smaller shareholder.

Burford has now participated in several secondary market transactions to balance its portfolio better. This has also locked in significant profit, generating proceeds of \$236m. The last of these was in July 2018, where 3.75% of its exposure was sold for \$30m, giving an implied valuation before the most recent announcement for Burford's original entitlement of \$800m. Burford has committed to keeping its holding in the case at a minimum of 50.1% of the total.

Latest announcement

Even without Burford's opinion, the basics of the case suggest that Argentina's chances of defending this successfully are not great. With very large sums involved, it is no surprise that its lawyers are adopting classic defence tactics of stalling and delaying as much as possible.

The appeal to the US Supreme Court should be seen in this context. With the lower courts having consistently ruled that the case should be heard in the US, the odds of the Supreme Court coming to an alternative decision were probably very low. A decision to hear the appeal could have delayed the case from going to court for a year. While the refusal to hear the appeal is welcome, and not a surprise, the process of seeking it has delayed proceedings by a few months.

It should be noted that the rulings so far have simply been about jurisdiction and not about the merits of the case. While the case can now proceed in the US, we do not expect a quick resolution as Argentina's lawyers will continue to use every delaying tactic they can muster. And, even if a ruling is given in Burford's favour, it should be expected that Argentina will use the full appeals process. Investors will need patience.

Secondary sale

The facts are in the announcement. Burford has sold 10% of its entitlement for \$100m to 11 institutional investors. It appears to have used a book-build process, as the announcement notes the offer was oversubscribed. The number of investors is new disclosure, with approximately 40 institutional investors having participated in the secondary market for Petersen. This enhances the credibility of the valuations implied by the transactions.

The new transaction implies a total \$1bn valuation for the original Burford, with the company retaining 61.25% of its original holding. It also retains its Eton Park exposure. Based on the previous transaction, the implied value of Burford's holding would have been \$570m. After the latest transaction, the implied valuation of the residual holding is now \$612.5m.

Teinver

Teinver has been one of Burford's longer-standing cases, having first received investment in 2010. It also featured the government of Argentina, in this case appropriating two airlines. In July 2017, a positive tribunal decision was received, although Argentina's government sought an annulment. Burford noted at the time that these annulments are rarely successful, and this has proved to be the case, with the annulment application being dismissed in May 2019.

In early 2018, Burford sold its interest in the case for \$107m, a discount to the estimated award value of ca.\$140m. The purchaser had the option to put the case back to Burford if the annulment was successful. Consequently, Burford had a liability of \$7m for the value of this put option. This will be released in the next results, generating a gain of \$7m.

Valuation history

Burford's valuation methodology has been a topic of ongoing discussion. Valuations are only changed when there is an objective event in the litigation, though the exact process for that is not disclosed. This is understandable. Each case is different. Also, Burford's involvement in individual cases is usually not disclosed and, even if it were, disclosing the valuation could influence the result.

Nevertheless, results to date have suggested these have been conservatively set. Although there have only been a handful of sales in the secondary market, these have all been at a premium to book valuation. Of those claims that have been written up, only 0.2% of write-ups by dollar value (two investments) have ever turned into a loss (see Burford's 2018 Investor Day presentation). Burford have also documented how the majority of uplifts to fair value take place in the year before the matter concludes, suggesting they are not anticipating gains far in advance when it will be less certain.

The announcement on the final resolution for Teinver supplied a valuation history. Although it is only one case, it gives further support to our view that the company is conservative.

- ▶ From investment in 2010, Burford incurred \$12.8m of costs.
- ▶ By the end of 2016, Burford had increased the fair value to \$30m. An unrealised gain of \$17m had previously been recognised.
- ▶ In 2017, a favourable judgement was received. The fair value was increased to \$69m, with a further unrealised gain of \$39m being recognised. We note that the fair value was around half of Burford's entitlement from the estimated award, underlining how conservative this was.
- ▶ When it was sold in 2018 for \$107m, Burford recognised another \$31m net gain (\$107m less \$69m less the \$7m value of the put option). Burford noted that only 6% of awards by that tribunal had ever been annulled, with only 3% in this decade. This suggests a conservative value for the put option.
- ▶ The 2019 results will give a final gain of \$7m for expiry of the put option.

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